

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Olivet, Michigan		County Eaton	
Audit Date June 30, 2005		Opinion Date October 31, 2005		Date Accountant Report Submitted to State: January 23, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

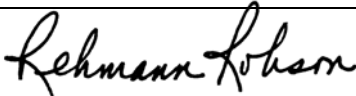
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|---|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

CITY OF OLIVET
Eaton County, Michigan



FINANCIAL STATEMENTS

**For The Year Ended
June 30, 2005**



REHMANN ROBSON
Certified Public Accountants

CITY OF OLIVET, MICHIGAN
For the Fiscal Year Ended June 30, 2005

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

October 31, 2005

Honorable Mayor and
Members of the City Council
City of Olivet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Olivet, Michigan**, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Olivet's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Olivet, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Olivet's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the *City of Olivet, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3,442,572 (*net assets*). Of this amount, \$1,148,206 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$21,462.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,063,433, an increase of \$60,289 in comparison with the prior year composite balances. Approximately \$965,000 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$618,800 or 153% of total general fund expenditures.
- The City's total bonded debt decreased by \$48,000 during the current fiscal year. The City retired \$10,000 in general water obligation bonds and \$38,000 in general sewer obligation bonds.

Overview of the Financial Statements.

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus,

revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public services, parks and recreation, community development, and other functions. The business-type activities include sewer and water operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate authorities – the Economic Development Corporation – for which the City is financially accountable. Financial information for this *component* is reported separately from the financial information presented for the primary government itself.

Fund financial statements.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and major streets funds, each of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds.

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water distribution operations. *Internal service funds* account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) and accumulate and allocate costs internally among the City's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the two major enterprise funds - water, and sewer.

Fiduciary funds.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain other information, which includes combining and individual fund financial statements and schedules.

Government-wide Financial Analysis.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Olivet, assets exceeded liabilities by \$3,442,572 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding, which amounts to approximately \$1,887,000 at June 30, 2005. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets amounting to \$407,215 represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* in the amount of \$1,148,206 or may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year the government's net assets increased by \$36,211 in its governmental activities, and decreased by \$14,749 in its business-type activities.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$1,267,069	\$1,166,790	\$294,216	\$369,758	\$1,561,285	\$1,536,548
Capital assets	680,246	743,053	2,541,032	2,560,984	3,221,278	3,304,037
Total assets	1,947,315	1,909,843	2,835,248	2,930,742	4,782,563	4,840,585
Long term liabilities outstanding	-	-	1,334,127	1,382,127	1,334,127	1,382,127
Other liabilities	1,261	-	4,603	37,348	5,864	37,348
Total liabilities	1,261	-	1,338,730	1,419,475	1,339,991	1,419,475
Net assets:						
Invested in capital assets, net of related debt	680,246	743,053	1,206,905	1,178,857	1,887,151	1,921,910
Restricted	362,287	15,929	44,928	51,095	407,215	67,024
Unrestricted	903,521	1,150,861	244,685	281,315	1,148,206	1,432,176
Total Net Assets	\$1,946,054	\$1,909,843	\$1,496,518	\$1,511,267	\$3,442,572	\$3,421,110

CITY OF OLIVET – CHANGE IN NET ASSETS
JUNE 30, 2005

	Governmental Activities		Business-type Activities		Total	Total
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	\$59,251	\$54,705	\$324,298	\$346,874	\$383,549	\$401,579
Operating Grants & Contributions	\$7,123	\$6,000		\$403,039	\$7,123	\$409,039
Capital Grants & Contributions						
Total Revenues	\$66,374	\$60,705	\$324,298	\$749,913	\$390,672	\$810,618
Expenses:						
General Government	\$140,598	\$107,161			\$140,598	\$107,161
Public Safety	\$224,646	\$220,069			\$224,646	\$220,069
Public Services	\$100,976	\$122,874			\$100,976	\$122,874
Parks and Recreation	\$15,219	\$22,634			\$15,219	\$22,634
Public Works	\$14,426	\$15,450			\$14,426	\$15,450
Community Development	\$7,441	\$7,107			\$7,441	\$7,107
Other Functions	\$77,669	\$72,460			\$77,669	\$72,460
Unallocated Depreciation						
Water			\$169,943	\$162,252	\$169,943	\$162,252
Sewer			\$164,051	\$117,278	\$164,051	\$117,278
Total Expenses	\$580,975	\$567,755	\$333,994	\$279,530	\$914,969	\$847,285
Net revenue (expense)	(\$514,601)	(\$507,050)	(\$9,696)	\$470,383	(\$524,297)	(\$36,667)
General Revenues:						\$0
Taxes	\$206,973	\$199,600			\$206,973	\$199,600
Grants & Contributions Not Restricted to specific programs	\$319,246	\$342,694			\$319,246	\$342,694
Unrestricted Investment Earnings	\$9,999	\$9,411	\$2,947	\$2,723	\$12,946	\$12,134
Other Revenues	\$6,594	\$14,658			\$6,594	\$14,658
Gain on Sale of Assets		\$4,346				\$4,346
Contributions to Permanent Funds						
Transfers - Internal Activity	\$8,000	(\$53,500)	(\$8,000)	\$53,500	\$0	
Total General Revenues	\$550,812	\$517,209	(\$5,053)	\$56,223	\$545,759	\$573,432
Increase in Net Assets	\$36,211	\$10,159	(\$14,749)	\$526,606	\$21,462	\$536,765
Net Assets 7-01-04	\$1,909,843	\$1,899,684	\$1,511,267	\$984,661	\$3,421,110	\$2,884,345
Net Assets 6-30-05	\$1,946,054	\$1,909,843	\$1,496,518	\$1,511,267	\$3,442,572	\$3,421,110

Governmental activities.

Governmental activities increased the City's net assets by \$36,211. Key elements of this increase are as follows:

- Property taxes increased by approximately \$7,400 during the year. Most of this increase is the product of increased taxable values and residential growth.
- The increase in property taxes was offset by a \$1,179 decrease in State Shared Revenue.
- Costs were generally contained and similar to costs incurred in the preceding year.

Business-type activities.

Business-type activities decreased the City's net assets by \$14,749. Key elements of this loss are as follows:

- The net loss of the Water fund was approximately \$32,000 for the current year. This compares to an income of approximately \$427,000 in the prior year, which included a state grant of approximately \$403,000 for capital improvements.
- The net income of the Sewer fund was approximately \$13,500, which compares to a prior year net income of approximately \$100,000. The prior year included a one-time transfer of \$60,000 from the internal service fund.

Financial Analysis of the Government's Funds.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,063,433. That is a increase of \$60,289 in comparison with the prior year. Most of this increase can be attributed to ongoing revenues exceeding ongoing expenditures in the governmental funds as a whole. Approximately \$966,000, or 91% of this amount constitutes *unreserved fund balance*, which is available for spending at the governments discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1.) to advance cast to another fund (\$82,346); 2.) to generate income to pay for the perpetual car of the cemetery (\$16,019).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$618,800. All the general fund balance except \$82,346 is unreserved and therefore available for spending at the government's discretion.

During the current fiscal year, the fund balance of the City's General Fund increased by \$8,989. generally as a result of ongoing revenues exceeding ongoing expenditures.

The Major Street Fund has a total fund balance of \$147,012 which was increased during the year due to State MTF distributions and property taxes exceeding project costs.

Proprietary funds.

The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the water, sewer, and transportation funds at the end of the year amounted to a total of \$244,685. The water fund had an decrease in net assets for the year of \$31,858, and the sewer fund had an increase of \$17,109. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights.

The City did not amend the original budget as adopted for the General Fund. Overall revenues as reported in the underlying financial statements were approximately \$9,973 more than budgeted, primarily related to an increase charges for services and interest. Expenditures were approximately (\$17,371) less than budgeted, with this difference attributable to less spending in employee wages, insurance costs and park expenditures

Budget to actual comparisons for all other City special revenue funds were generally favorable in varying degrees.

Capital Asset and Debt Administration.

Capital assets.

The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$3,221,278 (net of accumulated depreciation) which is a decrease of \$82,759 from last fiscal year. This investment in capital assets includes land, buildings and system improvements, equipment, and vehicles. The decrease in the City's investment in capital assets can generally be attributed to depreciation expense exceeding capital asset additions for the year

CITY OF OLIVET – CAPITAL ASSETS
(net of depreciation)
June 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Capital Assets not being depreciated:						
Land	\$10,000	\$10,000	\$31,781	\$31,781	\$41,781	\$41,781
Construction in Progress				\$553,705		\$553,705
Subtotal	\$10,000	\$10,000	\$585,486	\$585,486	\$41,781	\$595,486
Capital Assets being depreciated:						
Buildings and Improvements	\$169,656	\$169,656	\$20,100	\$20,100	\$189,756	\$189,756
Systems and Improvements			\$3,558,949	\$2,940,754	\$3,558,949	\$2,940,754
Equipment	\$277,278	\$261,173	\$36,365	\$36,365	\$313,643	\$297,538
Vehicles	\$1,022,153	\$1,022,153			\$1,022,153	\$1,022,153
Subtotal	\$1,469,087	\$1,452,982	\$3,615,414	\$2,997,219	\$5,084,501	\$9,534,702
Less Accumulated Depreciation	-\$798,841	-\$719,929	-\$1,106,163	-\$1,021,721	-\$1,905,004	-\$1,741,650
Subtotal	\$670,246	\$733,053	\$2,509,251	\$1,975,498	\$3,179,497	\$2,708,551
Total	\$680,246	\$743,053	\$2,541,032	\$2,560,984	\$3,221,278	\$3,304,037

Long-term debt.

At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,334,127, which consisted of revenue bonds, where the City has pledged the income to be received from the constructed assets to pay the debt service of the related bond issues.

The City's total debt decreased by \$ 48,000 during the current fiscal year. There were no new debts issued during the fiscal year.

The City of Olivet has three general obligation bond issues outstanding at June 30, 2005.

CITY OF OLIVET – LONG TERM DEBT
June 30, 2005

	<u>Balance</u> <u>July 1, 2004</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due In</u> <u>One Year</u>
2003 Water Capital Improvement Bond	\$380,000	-\$10,000	\$370,000	\$10,000
1968 Sewer Revenue Bond	\$36,000	-\$18,000	\$18,000	\$19,000
1994 Sewer Revenue Bond	\$966,127	-\$20,000	\$946,127	\$20,000
Total	\$1,382,127	-\$48,000	\$1,334,127	\$49,000

Economic Factors and Next Year's Budgets and Rates.

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- The unemployment rate for the City is currently 6.2 percent, which is an increase of 4 percent from a year ago and about 4.0 percent higher than the state's average unemployment rate of 6.9 percent.
- Inflationary trends in the region compare favorably to national indices.
- State shared revenues are likely to decrease due to declining revenue streams coming in to the State of Michigan, for which a portion are distributed back to municipalities based on formulas.

Requests for Information.

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer's Office, City of Olivet, 106 South Main, P.O. Box 367, Olivet, Michigan 49076.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OLIVET, MICHIGAN

Statement of Net Assets

June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Assets				
Cash and cash equivalents	\$ 1,129,098	\$ 311,250	1,440,348	\$ 155,861
Receivables	44,203	76,734	120,937	
Internal balances	93,768	(93,768)	-	
Capital assets, net				
Assets not being depreciated	10,000	31,781	41,781	-
Assets being depreciated	670,246	2,509,251	3,179,497	
Total assets	<u>1,947,315</u>	<u>2,835,248</u>	<u>4,782,563</u>	<u>155,861</u>
Liabilities				
Accounts payable and accrued expenses	1,261	4,603	5,864	-
Noncurrent liabilities:				-
Due within one year	-	49,000	49,000	-
Due in more than one year	-	1,285,127	1,285,127	-
Total liabilities	<u>1,261</u>	<u>1,338,730</u>	<u>1,339,991</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	680,246	1,206,905	1,887,151	-
Restricted for				
Capital maintenance	-	44,928	44,928	-
Other purposes	346,268	-	346,268	
Perpetual care - nonexpendable	16,019	-	16,019	-
Unrestricted	903,521	244,685	1,148,206	155,861
Total net assets	<u>\$ 1,946,054</u>	<u>\$ 1,496,518</u>	<u>\$ 3,442,572</u>	<u>\$ 155,861</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 140,598	\$ 9,575	\$ -	\$ -	\$ (131,023)
Public safety	224,646	38,970	-	-	(185,676)
Public services	100,976	10,616	-	-	(90,360)
Public works	14,426	90	-	-	(14,336)
Parks and recreation	15,219	-	-	-	(15,219)
Community development	7,441	-	7,123	-	(318)
Other functions	77,669	-	-	-	(77,669)
Unallocated depreciation	-	-	-	-	-
Total governmental activities	<u>580,975</u>	<u>59,251</u>	<u>7,123</u>	<u>-</u>	<u>(514,601)</u>
Business-type activities:					
Sewer	164,051	186,469	-	-	22,418
Water	169,943	137,829	-	-	(32,114)
Total business-type activities	<u>333,994</u>	<u>324,298</u>	<u>-</u>	<u>-</u>	<u>(9,696)</u>
Total primary government	<u>\$ 914,969</u>	<u>\$ 383,549</u>	<u>\$ 7,123</u>	<u>\$ -</u>	<u>\$ (524,297)</u>
Component unit					
Economic Development	<u>\$ 6,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,291)</u>

continued...

CITY OF OLIVET, MICHIGAN

Statement of Activities For the Year Ended June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Changes in net assets				
Net (expense) revenue	\$ (514,601)	\$ (9,696)	\$ (524,297)	\$ (6,291)
General revenues:				
Property taxes	206,973	-	206,973	-
Grants and contributions not restricted to specific programs	319,246	-	319,246	-
Unrestricted investment earnings	9,999	2,947	12,946	-
Other revenues	6,594	-	6,594	44,933
Gain on sale of capital assets	-	-	-	-
Transfers - internal activities	8,000	(8,000)	-	-
Total general revenues, contributions and transfers	550,812	(5,053)	545,759	44,933
Change in net assets	36,211	(14,749)	21,462	38,642
Net assets, beginning of year	1,909,843	1,511,267	3,421,110	117,219
Net assets, end of year	<u>\$ 1,946,054</u>	<u>\$ 1,496,518</u>	<u>\$ 3,442,572</u>	<u>\$ 155,861</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF OLIVET, MICHIGAN
Balance Sheet
June 30, 2005

	<u>General</u>	<u>Major Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 550,631	\$ 167,354	\$ 217,409	\$ 935,394
Due from other governments	25,669	14,663	3,871	44,203
Due from other funds	42,500	-	-	42,500
Advances to other funds	82,346	-	-	82,346
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$ 701,146</u>	<u>\$ 182,017</u>	<u>\$ 221,280</u>	<u>\$ 1,104,443</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Due to other funds	\$ -	\$ 35,005	\$ 6,005	41,010
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance				
Reserved:				
Advances to other funds	82,346	-	-	82,346
Perpetual care	-	-	16,019	16,019
Unreserved, undesignated	618,800	147,012	-	765,812
Unrserved, undesignated, reported in:				
Special revenue funds	-	-	199,256	199,256
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>701,146</u>	<u>147,012</u>	<u>215,275</u>	<u>1,063,433</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 701,146</u>	<u>\$ 182,017</u>	<u>\$ 221,280</u>	<u>\$ 1,104,443</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds	\$ 1,063,433
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	1,025,930
Deduct: accumulated depreciation	(538,052)
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	<u>394,743</u>
Net assets of governmental activities	<u><u>\$ 1,946,054</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Revenue, Expenditures
and Changes in Fund Balances
All Governmental Funds
For the Year Ended June 30, 2005

	General	Major Streets	Other Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 174,365	\$ -	\$ 32,608	\$ 206,973
Licenses and permits	5,492	-	-	5,492
Intergovernmental:				
State	204,657	90,657	23,932	319,246
Local	-	-	7,123	7,123
Charges for services	43,053	9,314	1,392	53,759
Fines and forfeits	6,057	-	-	6,057
Interest	7,312	-	691	8,003
Miscellaneous	537	-	-	537
Total revenue	<u>441,473</u>	<u>99,971</u>	<u>65,746</u>	<u>607,190</u>
Expenditures				
General government	82,211	-	-	82,211
Public safety	205,268	-	-	205,268
Public services	24,117	73,161	27,815	125,093
Community development and enrichment	15,219	-	7,441	22,660
Other functions	77,669	-	-	77,669
Total expenditures	<u>404,484</u>	<u>73,161</u>	<u>35,256</u>	<u>512,901</u>
Revenue over (under) expenditures	<u>36,989</u>	<u>26,810</u>	<u>30,490</u>	<u>94,289</u>
Other financing sources (uses)				
Transfers in	-	7,000	23,000	30,000
Transfers (out)	(28,000)	(2,000)	(34,000)	(64,000)
Total other financing sources (uses)	<u>(28,000)</u>	<u>5,000</u>	<u>(11,000)</u>	<u>(34,000)</u>
Net change in fund balances	8,989	31,810	19,490	60,289
Fund balances, beginning of year	<u>692,157</u>	<u>115,202</u>	<u>195,785</u>	<u>1,003,144</u>
Fund balances, end of year	<u>\$ 701,146</u>	<u>\$ 147,012</u>	<u>\$ 215,275</u>	<u>\$ 1,063,433</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$ 60,289
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	12,080
Deduct: depreciation expense	(49,782)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to that fund is reported with governmental activities.

Less: net operating loss from governmental activities in the internal service fund	(30,372)
Add: interest revenue in the internal service fund	1,996
Add: transfers in to the internal service fund (internal activities)	42,000

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 36,211</div>
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The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Revenue, Expenditures and
Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenue			
Property Taxes	\$ 177,000	\$ 174,365	\$ (2,635)
Licenses and permits	5,150	5,492	342
Intergovernmental:			
State	209,000	204,657	(4,343)
Charges for services	31,600	43,053	11,453
Fines and forfeits	5,650	6,057	407
Interest	3,000	7,312	4,312
Miscellaneous	100	537	437
	<hr/>	<hr/>	<hr/>
Total revenue	431,500	441,473	9,973
	<hr/>	<hr/>	<hr/>
Expenditures			
General government:			
Council	3,000	2,830	(170)
Mayor	600	600	-
Election	7,370	8,983	1,613
Assessor	5,000	4,900	(100)
Board of review	1,000	642	(358)
Clerk/professional services	55,375	43,800	(11,575)
City hall	7,030	9,640	2,610
Cemetery	12,685	9,043	(3,642)
Zoning	2,000	1,773	(227)
Public safety:			
Ambulance	9,540	9,961	421
Police	137,000	133,094	(3,906)
Fire	63,715	62,213	(1,502)
Public services:			
Street lighting	15,000	14,426	(574)
Other	2,600	9,691	7,091
Community development and enrichment			
Parks	19,540	15,219	(4,321)
Other functions			
Insurance	52,500	49,797	(2,703)
Retirement costs	9,100	8,739	(361)
Fringe benefits	18,800	19,133	333
	<hr/>	<hr/>	<hr/>
Total expenditures	421,855	404,484	(17,371)
	<hr/>	<hr/>	<hr/>
Revenue over expenditures	9,645	36,989	27,344
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Transfers (out)	(24,000)	(28,000)	(4,000)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(24,000)	(28,000)	(4,000)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(14,355)	8,989	23,344
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	692,157	692,157	-
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 677,802</u>	<u>\$ 701,146</u>	<u>\$ 23,344</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Revenue, Expenditures and
Changes in Fund Balances - Budget and Actual
Major Streets Fund
For the Year Ended June 30, 2005

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenue			
Intergovernmental:			
State	\$ 82,000	\$ 90,657	\$ 8,657
Charges for services	2,000	9,314	7,314
Interest revenue	500	-	(500)
	<u>84,500</u>	<u>99,971</u>	<u>15,471</u>
Expenditures			
Highways and Streets:			
Construction	10,800	388	(10,412)
Routine maintenance	31,100	38,249	7,149
Non-motorized improvements	15,000	10,571	(4,429)
Traffic signs	1,750	1,977	227
Tree trimming	4,000	4,080	80
Snow removal	10,500	12,585	2,085
Administration	6,300	5,311	(989)
	<u>79,450</u>	<u>73,161</u>	<u>(6,289)</u>
Total expenditures	<u>79,450</u>	<u>73,161</u>	<u>(6,289)</u>
Revenue over (under) expenditures	<u>5,050</u>	<u>26,810</u>	<u>21,760</u>
Other financing sources			
Transfer to plant and property fund	(12,000)	(2,000)	10,000
Transfer from Municipal Street Fund	7,000	7,000	-
	<u>(5,000)</u>	<u>5,000</u>	<u>10,000</u>
Net change in fund balances	50	31,810	31,760
Fund balance, beginning of year	<u>115,202</u>	<u>115,202</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 115,252</u></u>	<u><u>\$ 147,012</u></u>	<u><u>\$ 31,760</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-type activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Sewer	Water	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 272,855	\$ 38,395	\$ 311,250	\$ 193,704
Receivables- accounts, net of allowance for doubtful accounts	44,393	32,341	76,734	-
Due from other funds	15,204	-	15,204	25,136
Total current assets	332,452	70,736	403,188	218,840
Capital assets:				
Not being depreciated	10,000	21,781	31,781	-
Being depreciated	1,428,586	1,080,665	2,509,251	192,368
Capital assets, net	1,438,586	1,102,446	2,541,032	192,368
Total assets	1,771,038	1,173,182	2,944,220	411,208
Liabilities				
Current liabilities:				
Accounts payable	319	4,284	4,603	1,261
Due to other funds	-	26,626	26,626	15,204
Current portion of long-term debt	39,000	10,000	49,000	-
Total current liabilities	39,319	40,910	80,229	16,465
Noncurrent liabilities:				
Advance from general fund	-	82,346	82,346	-
Bonds payable, net of current portion	925,127	360,000	1,285,127	-
Total noncurrent liabilities	925,127	442,346	1,367,473	-
Total liabilities	964,446	483,256	1,447,702	16,465
Net assets				
Invested in capital assets, net of related debt	474,459	732,446	1,206,905	192,368
Restricted	39,444	5,484	44,928	-
Unrestricted	292,689	(48,004)	244,685	202,375
Total net assets	\$ 806,592	\$ 689,926	\$ 1,496,518	\$ 394,743

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Revenue, Expenses,
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-type activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Sewer	Water	Total	
Operating revenue				
Charges for services	\$ 186,469	\$ 137,829	\$ 324,298	\$ 47,029
Operating expenses				
Personal services	16,940	24,101	41,041	10,010
Administration	2,973	3,432	6,405	-
Chemicals and supplies	1,653	7,757	9,410	-
Meters	-	-	-	-
Professional services	9,611	43,049	52,660	-
Utilities	4,161	11,151	15,312	3,687
Repairs and maintenance	442	26,941	27,383	7,737
Other operating expenses	26,525	11,447	37,972	26,837
Depreciation	57,190	27,252	84,442	29,130
Total operating expenses	119,495	155,130	274,625	77,401
Operating income (loss)	66,974	(17,301)	49,673	(30,372)
Nonoperating revenue (expenses)				
Interest revenue	2,691	256	2,947	1,996
Interest and fiscal charges	(44,556)	(14,813)	(59,369)	-
Total nonoperating revenue (expenses)	(41,865)	(14,557)	(56,422)	1,996
Net Income (loss) before transfers	25,109	(31,858)	(6,749)	(28,376)
Transfers				
Transfers in	-	-	-	42,000
Transfers out	(8,000)	-	(8,000)	-
Total transfers	(8,000)	-	(8,000)	42,000
Change in net assets	17,109	(31,858)	(14,749)	13,624
Net assets, beginning of year	789,483	721,784	1,511,267	381,119
Net assets, end of year	\$ 806,592	\$ 689,926	\$ 1,496,518	\$ 394,743

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2005

	Business-type activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Sewer	Water	Total	
Cash flows from operating activities				
Cash received from customers, residents and users	\$ 189,882	\$ 182,050	\$ 371,932	\$ -
Receipts from interfund services provided	-			
Cash paid to employees	(45,365)	(24,101)	(69,466)	(10,010)
Cash paid to suppliers	(16,940)	(136,622)	(153,562)	(37,000)
Payments for interfund services used	-	-	-	47,029
Net cash provided by operating activities	127,577	21,327	148,904	19
Cash flows from non capital financing activities				
Transfer to other fund	(8,000)	-	(8,000)	-
Transfer from other funds	-	-	-	42,000
Net cash provided by (used in) noncapital financing activities	(8,000)	-	(8,000)	42,000
Cash flows from capital and related financing activities				
Bond payments on capital debt	(38,000)	(10,000)	(48,000)	-
Interest payments on capital debt	(44,556)	(14,813)	(59,369)	-
Purchase of capital assets	-	(64,490)	(64,490)	(4,025)
Net cash used by capital and related financing activities	(82,556)	(89,303)	(171,859)	(4,025)
Cash flows from investing activities				
Interest income received	2,691	256	2,947	1,996
Net increase (decrease) in cash and cash equivalents	39,712	(67,720)	(28,008)	39,990
Cash and cash equivalents, beginning of year	233,143	106,115	339,258	153,714
Cash and cash equivalents, end of year	<u>\$ 272,855</u>	<u>\$ 38,395</u>	<u>\$ 311,250</u>	<u>\$ 193,704</u>
Cash flows from operating activities				
Operating income (loss)	\$ 66,974	\$ (17,301)	49,673	\$ (30,372)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	57,190	27,252	84,442	29,130
(Increase) decrease in:				
accounts receivable	3,413	44,121	47,534	-
Increase (decrease) in:				
accounts payable	-	(32,745)	(32,745)	1,261
Net cash provided by operating activities	<u>\$ 127,577</u>	<u>\$ 21,327</u>	<u>\$ 148,904</u>	<u>\$ 19</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OLIVET, MICHIGAN
Statement of Fiduciary Net Assets
June 30, 2005

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u><u>\$ 2,470</u></u>
 Liabilities	
Due to other governmental units	<u><u>\$ 2,470</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

City of Olivet, Michigan

Notes To Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Olivet, Michigan have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1-A. Reporting Entity

The City of Olivet has followed the guidelines of the Governmental Standards Board's Statement No. 14. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit - The component unit columns in the financial statements include the financial data of the City's sole component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City:

Economic Development Corporation - This entity is governed by a separate committee appointed by the City Council to grant loans to businesses operating in the City.

1-B. Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

City of Olivet, Michigan

Notes To Financial Statements

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major streets special revenue fund. This fund is used to control the expenditure of motor fuel taxes which are earmarked by law for major street and highway purposes.

The City reports the following major enterprise funds:

Sewer fund. This fund accounts for the activities of the City's sewage disposal and sewage treatment systems.

Water fund. This fund accounts for the operations of the City's water distribution and water treatment systems.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including trust or major capital projects.

Permanent fund. The Cemetery Trust Fund accounts for resources that are legally restricted to the extent that earnings, and not principal, may be used to support cemetery operations.

Internal service fund. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes the plant and property fund.

Agency funds. These funds account for assets held for other governments in an agency capacity.

1-C. Measurement Focus / Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

City of Olivet, Michigan

Notes To Financial Statements

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and proprietary funds of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1-D. Assets, Liabilities and Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

City of Olivet, Michigan

Notes To Financial Statements

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as: assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Machinery and equipment	5-20
Vehicles	4-20
Water and wastewater systems	15-40

Compensated Absences

Vacation is earned at the inception of full-time employment. Vacation time earned but not used by the employee's anniversary date is paid.

Full-time employees are entitled to 5 sick days per year. Sick days are allowed to be carried over, not to exceed 30 days. Upon termination, any unused sick days will be paid. Compensated absences payable is immaterial at June 30, 2005.

City of Olivet, Michigan

Notes To Financial Statements

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

All governmental funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the City Council. The budget is adopted on a function level basis for the General and Special Revenue Funds.

Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other firm commitments are used for the expenditure of monies is utilized as an extension of formal budgetary control in the governmental funds. Encumbered amounts lapse at year-end, however, material encumbrances generally are reappropriated as part of the following year's budget. These material encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures nor liabilities. No such commitments existed at June 30, 2005.

City of Olivet, Michigan

Notes To Financial Statements

2-B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations are disclosed in the Budgetary Comparison Statements for the major governmental funds. The City had excess expenditures over revenues in the following funds:

<u>Fund/Activity</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General/Public Services	\$ 17,600	\$ 24,117	\$ 6,517

NOTE 3 – DETAILED NOTES ON ALL FUNDS

3-A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a summary of deposit balances as of June 30, 2005:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Statement of Net Assets:			
Cash and cash equivalents	\$ 1,440,348	\$ 155,861	\$ 1,596,209
Statement of Fiduciary Net Assets:			
Cash and cash equivalents	<u>2,470</u>	<u>-</u>	<u>2,470</u>
Total	<u>\$ 1,442,818</u>	<u>\$ 155,861</u>	<u>\$ 1,598,679</u>

City of Olivet, Michigan

Notes To Financial Statements

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments in note 1. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,365,561 of the City's bank balance of \$1,677,207 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk.

The City had no investments at June 30, 2005.

3-B. Receivables

Receivables in the governmental activities are 100 percent due from other governments. Business-type activities receivables are 100 percent due from customers representing amounts to be received for water and sewer charges. All accounts receivable are expected to be collected within one year.

City of Olivet, Michigan

Notes To Financial Statements

3-C. Capital Assets

Capital assets activity for the year ended June 30, 2005, was as follows:

Primary government

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated - land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital assets being depreciated				
Buildings and improvements	169,656	-	-	169,656
Vehicles	1,022,153	-	-	1,022,153
Equipment	261,173	16,105	-	277,278
Total capital assets being depreciated	1,452,982	16,105	-	1,469,087
Less accumulated depreciation for:				
Buildings and improvements	73,721	5,018	-	73,721
Vehicles	525,975	57,363	-	525,975
Equipment	120,233	16,531	-	120,233
Total accumulated depreciation	719,929	78,912	-	798,841
Total capital assets being depreciated, net	733,053	(62,807)	-	670,246
Governmental activities capital assets, net	\$ 743,053	\$ (62,807)	\$ -	\$ 680,246

City of Olivet, Michigan

Notes To Financial Statements

Business-type activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 31,781	\$ -	\$ -	\$ 31,781
Construction in process	553,705	64,490	618,195	-
	585,486	64,490	618,195	31,781
Capital assets being depreciated				
Buildings and improvements	20,100	-	-	20,100
Systems and improvements	2,940,754	618,195	-	3,558,949
Equipment	36,365	-	-	36,365
Total capital assets being depreciated	2,997,219	618,195	-	3,615,414
Less accumulated depreciation	1,021,721	84,442	-	1,106,163
Total capital assets being depreciated, net	1,975,498	533,753	-	2,509,251
Business-type activities capital assets, net	\$ 2,560,984	\$ 598,243	\$ 618,195	\$ 2,541,032

City of Olivet, Michigan

Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 2,5669
Public safety	34,940
Public services	12,276
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>29,130</u>

Total depreciation expense - governmental activities **\$ 78,912**

Business-type activities:

Water	\$ 27,252
Sewer	<u>57,190</u>

Total depreciation expense - business-type activities **\$ 84,442**

3-D. Payables

Governmental activities payables are 100 percent vendors. Business-type activities payables are 23 percent vendors and 77 percent deposits. Fiduciary accounts payable are 100 percent due to other governments.

3-E. Interfund Receivables, Payables and Transfers

At June 30, 2005, interfund receivables and payables were as follows:

Receivable Fund	Payable Fund					Total
	Major Street	Nonmajor Governmental	Water	Internal service-Equipment		
General	\$ 35,005	\$ 6,005	\$ 1,490	\$ -	\$ 42,500	
Sewer	-	-	-	15,204	15,204	
Equipment	-	-	25,136	-	25,136	
	\$ 35,005	\$ 6,005	\$ 26,626	\$ 15,204	\$ 82,840	

City of Olivet, Michigan

Notes To Financial Statements

The City has interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of the following:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>			
	<u>Major Street</u>	<u>Nonmajor Governmental</u>	<u>Equipment Internal Service</u>	<u>Total</u>
General	\$ -	\$ -	\$ 28,000	\$ 28,000
Major Streets	-	-	2,000	2,000
Nonmajor Governmental	7,000	23,000	4,000	34,000
Sewer	-	-	8,000	8000
	<u>\$ 7,000</u>	<u>\$ 23,000</u>	<u>\$ 42,000</u>	<u>\$ 72,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3-F. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for certain business activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Fiscal Year Due</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities			
Water Capital Improvement	2023	3.95%	<u>\$ 370,000</u>

City of Olivet, Michigan

Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

Water Capital Improvement Bonds Payable				
	Principal		Interest	Total
2006	\$ 10,000	\$	14,417	\$ 24,417
2007	10,000		14,022	24,022
2008	15,000		13,529	28,529
2009	15,000		12,936	27,936
2010	15,000		12,344	27,344
2011-2015	95,000		51,251	146,251
2016-2020	125,000		29,131	154,131
2021-2023	85,000		5,235	90,235
	<u>\$ 370,000</u>	<u>\$</u>	<u>152,865</u>	<u>\$ 522,865</u>

Revenue bonds. The City also issues bonds where the income derived from the acquired or constructed assets is pledged to pay debt service. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Fiscal Year Due</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities			
1968 Sanitary Sewer System	2006	4.0%	\$ 18,000
1994 Sanitary Sewer System	2033	4.5%	<u>946,127</u>
			<u>\$ 964,127</u>

City of Olivet, Michigan

Notes To Financial Statements

Revenue bond debt service requirements to maturity are as follows:

Sewer Bonds Payable			
	Principal	Interest	Total
2006	\$ 39,000	\$ 42,103	\$ 81,103
2007	22,000	41,136	63,136
2008	23,000	40,123	63,123
2009	24,000	39,066	63,066
2010	25,000	37,963	62,963
2011-2015	140,000	171,704	311,704
2016-2020	165,000	137,391	302,391
2021-2025	190,000	97,454	287,454
2026-2030	215,000	51,711	266,711
2031-2033	121,127	6,877	128,004
	<u>\$ 964,127</u>	<u>\$ 665,527</u>	<u>\$ 1,629,654</u>

The following is a summary of bond transactions of the City for the year ended June 30, 2005:

	Balance July 1, 2004	Payments	Balance June 30, 2005	Due in One year
General obligation bonds	\$ 380,000	\$ 10,000	\$ 370,000	\$ 10,000
Revenue bonds	<u>1,002,127</u>	<u>38,000</u>	<u>964,127</u>	<u>39,000</u>
Total	<u>\$ 1,382,127</u>	<u>\$ 48,000</u>	<u>\$ 1,334,127</u>	<u>\$ 49,000</u>

3-G. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewage systems. Because the Water and Sewage Funds, which are individual funds that account entirely for the government's water and sewer activities, are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

City of Olivet, Michigan

Notes To Financial Statements

NOTE 4 – OTHER INFORMATION

4-A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health claims and participates in the MCM Group (risk pool for Michigan Townships, Villages and Cities) for claims relating to employee injuries/workers' compensation, general liability, property and casualty. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the City participates operates as a common risk-sharing management program for municipalities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

4-B. Property Taxes

Property taxes attach as an enforceable lien on property as of December 31 each year. The City property tax is levied the following July 1 based on the taxable value of the property, as assessed by the County, as of the preceding December 31. Real and personal property in the City for the July 1, 2004 levy was assessed and valued at approximately \$13,704,000, representing approximately 50% of estimated current market value.

The City's operating tax rate is 12.12 mills with an additional 2.5 mills for major and local streets, respectively.

4-C. Contingent Liabilities

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, will be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims have been asserted as of June 30, 2005.

There is an ongoing proceeding, however, related to contamination of a City-owned well. An underground gas storage tank owned by a college within the City has purportedly caused contamination to the well. At this time, the Michigan Department of Environmental Quality is working with the college to eliminate the contamination. Management of the City believes any adverse claim as a result of this contamination against the City, if any, would not have a significant impact on the City.

City of Olivet, Michigan

Notes To Financial Statements

4-D. Pension Plan

Prior to July 1, 1992, the City provided a SEP Plan to all employees who qualified. This was terminated effective July 1, 1992, to conform to IRS requirements. Contributions of 4% of gross wages are now deposited into Individual Retirement Accounts in the employee's name. Employer contributions for the year ended June 30, 2005 were \$8,739.

* * * * *

**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF OLIVET, MICHIGAN
Nonmajor Funds
Combining Balance Sheet
June 30, 2005

	Special Revenue Funds					Permanent Fund
	Local Street	Municipal Street	Drug Forfeiture	Community Recycling	Act 302 Fund	
<u>ASSETS</u>						
Assets						
Cash	\$ 181,981	\$ 15,836	\$ 114	\$ 2,904	\$ 137	\$ 418
Due from other governmental units	3,871	-	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 185,852</u>	<u>\$ 15,836</u>	<u>\$ 114</u>	<u>\$ 2,904</u>	<u>\$ 137</u>	<u>\$ 418</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	6,005	-	-	-	-	-
Total liabilities	6,005	-	-	-	-	-
Fund balances						
Unreserved, undesignated	179,847	15,836	114	2,904	137	418
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 185,852</u>	<u>\$ 15,836</u>	<u>\$ 114</u>	<u>\$ 2,904</u>	<u>\$ 137</u>	<u>\$ 418</u>
	</					

CITY OF OLIVET, MICHIGAN
Nonmajor Special Revenue Funds
Combining Statement of Revenue, Expenditures And
Changes in Fund Balances
For the Year Ended June 30, 2005

	Special Revenue Funds						Permanent Fund
	Local Street	Municipal Street	Drug Forfeiture	Community Recycling	Act 302 Fund	Highway Safety	Cemetery Care
Revenue							Total
Property taxes	\$ -	\$ 32,608	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:							
State	23,932	-	-	-	-	-	-
Local	-	-	-	7,123	-	-	-
Charges for services	1,302	-	-	-	-	-	90
Interest revenue	451	235	-	-	-	5	-
							691
Total revenue	25,685	32,843	-	7,123	-	5	90
							65,746
Expenditures							
Highways and streets							
Routine maintenance	13,421	-	-	-	-	1	-
Construction	194	-	-	-	-	-	-
Non-motorized improvements	715	-	-	-	-	-	-
Traffic signs	1,051	-	-	-	-	-	-
Tree trimming	2,100	-	-	-	-	-	-
Snow removal	6,058	-	-	-	-	-	-
Administration	4,275	-	-	-	-	-	-
Community development and enrichment	-	-	-	7,441	-	-	-
							7,441
Total expenditures	27,814	-	-	7,441	-	1	-
							35,256
Revenue over (under) expenditures	(2,129)	32,843	-	(318)	-	4	90
							30,490
Other financing sources (uses)							
Transfers in	23,000	-	-	-	-	-	-
Transfers out	(2,000)	(32,000)	-	-	-	-	-
							23,000
							(34,000)
Total other financing sources (uses)	21,000	(32,000)	-	-	-	-	-
							(11,000)
Net change in fund balances	18,871	843	-	(318)	-	4	90
							19,490
Fund balances, beginning of year	160,976	14,993	114	3,222	137	414	15,929
							195,785
Fund balances, end of year	\$ 179,847	\$ 15,836	\$ 114	\$ 2,904	\$ 137	\$ 418	\$ 16,019
							\$ 215,275

CITY OF OLIVET, MICHIGAN
All Agency Funds
Combining Balance Sheet
June 30, 2005

	Winter Tax Collection Fund	Holiday Decoration Fund	Total
	<hr/>	<hr/>	<hr/>
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 175	\$ 2,295	\$ 2,470
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Due to other governments	\$ 175	\$ 2,295	\$ 2,470
	<hr/>	<hr/>	<hr/>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



October 31, 2005

Honorable Mayor and City Council
City of Olivet, Michigan
Olivet, Michigan

We have audited the financial statements of the **CITY OF OLIVET, MICHIGAN** for the year ended June 30, 2005, and have issued our report thereon dated October 31, 2005. Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Olivet. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Olivet are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Olivet during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets in the Governmental Activities is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the basic financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets in the Sewer and Water enterprise funds and Plant and Property internal service fund is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous adjustments related to the proper accounting for various transactions. These proposed adjustments were all recorded by the City, and in our judgment, in the aggregate, had a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Olivet, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the information and use of the City Council and management of the City of Olivet, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

CITY OF OLIVET, MICHIGAN

Accounting Memorandum

For the Year Ended June 30, 2005

During our audit we became aware of certain issues regarding financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated October 31, 2005 on the financial statements of the City of Olivet, Michigan.

BUDGET PROCESS

We noted that the budget for the various funds, once adopted, is never amended to more closely mirror actual results for revenues and expenditures in those funds. P.A 621, as amended, includes provisions for amending budgets in order to prevent over-expenditures in the general and special revenues funds. Even though the budget variances are relatively small, we would like to remind the City of this law, and encourage compliance with its provisions in order to monitor fluctuations from the original enacted budget.

INTERNAL CONTROL COMMENTS

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the City's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the City's internal control structure, and cannot not be relied upon as part of management's systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

WATER ENTERPRISE FUND (Repeat comment)

We noted that the working capital (current assets less current liabilities) of the water fund has been decreasing over the past few years. The working capital at June 30, 2005 is approximately \$29,000, a reduction of approximately \$90,000 from the prior year. Working capital is often evaluated by financial analysts to measure the ability of a fund to pay its current bills. The City should consider having a water and sewer rate study, or cash flow projections performed in order to ensure that the funds will have sufficient cash in years to come in order to pay operating costs and debt service requirements.

COMPUTER APPLICATIONS (Repeat comment)

Over the past four years the City has converted its manual general ledger system to QuickBooks. The system does provide revenue and expenses for the various funds, but does not provide for the separation of balance sheet accounts into the required separate self-balancing funds. Accordingly, at the end of the year, the information is reconfigured into self-balancing funds by the use of the Microsoft Excel program. Even though in the past year there has been improvement with the present system, errors and omissions are hard to detect when the summarizations in trial balance format are done after the end of the year. This leads to delays in processing the final year-end financial statements.

Again, we strongly recommend that the City consider obtaining a governmental software package, which will accommodate fund accounting and assure double entry balancing which is key to any general ledger system.

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